

Tax Supported New Issue

Hillsborough County, Florida

Ratings

New Issue

Community Investment Tax
Revenue Bonds, Series 2004* AA

Outstanding Debt

Community Investment Tax Revenue
Bonds, Series 2001A and 2001 B AA
Court Facility Revenue Bonds,
Series 1999 AA

Rating Outlook Stable

*The 'AA' rating is the underlying rating. The bonds are expected to be insured at closing by Ambac Assurance Corp., whose insurer financial strength is rated 'AAA' by Fitch Ratings.

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New Issue Details

Approximately \$90,000,000 Community Investment Tax Revenue Bonds, Series 2004, are scheduled to sell competitively on or about June 29. Dated the date of delivery, the bonds mature Nov. 1, 2004–2025.

Security: The bonds are secured by a pledge of community investment tax revenue, which is a 30-year local option sales tax for infrastructure that was approved by voters in 1996 and is effective through Nov. 30, 2026.

Purpose: Series 2004 bond proceeds will be used to refund approximately \$67.5 million in outstanding commercial paper and finance the construction of stormwater and transportation infrastructure improvements.

■ Outlook

The underlying 'AA' rating reflects the sound debt coverage provided by Hillsborough County's share of community investment tax (CIT) revenues, adequate legal protections for bondholders, and the county's general credit characteristic, including a strong economic base and sound financial management and performance. The rating also incorporates the expectation that the county will further leverage the CIT to fund growth-related capital demands. The Rating Outlook is Stable.

■ Rating Considerations

The bonds are secured by a pledge of CIT revenues. The CIT is a 30-year local option sales tax for infrastructure that is effective through Nov. 30, 2026. The series 2004 bonds mature on Nov. 1, 2025. The pledged revenue is distributed by the county according to an interlocal agreement among the county, the school district, and incorporated municipalities within the county. One-quarter of revenues go to the Hillsborough County School District, and approximately \$9.6 million each fiscal year is for annual debt service on bonds issued to finance construction of Raymond James Stadium. After distributions to the school district and stadium debt service, the remaining revenue is divided among the county and three incorporated municipalities according to a population-based formula. Legal provisions are adequate, requiring historical pledged revenues to cover maximum annual debt service (MADS) 1.35 times (x) for the issuance of additional bonds. MADS coverage by fiscal 2003 receipts on all outstanding CIT and court facilities bonds is a strong 2.7x, but the county plans to issue additional CIT-backed debt in the next two to three fiscal years.

The amount of CIT revenue received by the county is based on the portion of county residents living in unincorporated areas of the county. In fiscal 2003, the county received 45.5% of total CIT revenues compared with 39.7% in fiscal 1999. Currently, two-thirds of the county's total population resides in the unincorporated portion of the county, and the unincorporated area population historically has grown at a faster rate than that of its three cities. Tampa, Plant City, and Temple Terrace do not have plans to annex any unincorporated areas of the county at this time.

The county's economy is diversified, with the service and trade sectors accounting for the largest components of the employment base, indicative of a stable tourism market. In addition, Tampa is home to numerous regional headquarters of multinational finance and insurance companies, providing employment opportunities to residents countywide. The county's April 2004 unemployment rate of 3.5% was well below state and national levels of 4.4% and 5.6%, respectively. Per capita retail sales in 2002 were approximately 130% of state and national figures, benefiting the sales tax base. Tax base growth in the county has been strong, averaging 7.7% annually over the past five fiscal years.

June 25, 2004

The county's general obligation bonds are rated 'AA+' by Fitch Ratings, reflecting its strong financial practices, low tax-supported debt burden, and a growing and diversifying economy. Fiscal 2003 ended with an unreserved general fund balance of \$98.4 million, representing an ample 14.8% of expenditures and transfers out. Debt levels are moderate, and debt is amortized rapidly, with 57% of principal retired within 10 years. The fiscal years 2005–2009 capital plan includes \$839 million in planned spending, 29% of which will be debt financed with general government and self-supporting enterprise fund revenue bonds. The remaining 71% will be cash funded on a pay-as-you-go basis from a variety of sources, including enterprise system fees, property taxes, and sales tax revenues.

■ Strengths

- Strong debt service coverage by pledged revenues and adequate legal provisions.
- Diverse and expanding local economy.
- Strong financial management and consistently sound performance.

■ Risk

- Additional leveraging of the CIT is expected given Hillsborough County's extensive growth-related capital demands.

■ Security

Pledged Revenues: The CIT is a 30-year, one-half cent sales surtax that was approved by Hillsborough County voters in 1996. The tax is levied on all transactions in the county subject to the state sales tax, and receipts must be used to fund capital expenditures. Proceeds are divided according to procedures and formulas set in an interlocal agreement. Pursuant to the agreement, the Hillsborough County School Board receives 25% of CIT receipts each fiscal year, and sufficient funds are provided for debt service on bonds issued to finance the construction of Raymond James Stadium, approximately \$9.6 million per year.

The remaining tax revenues are divided among the county and its three incorporated cities pursuant to a sales tax distribution formula stipulated under Florida law. The formula is population-based and sensitive to residential shifts between incorporated and unincorporated areas of the county. Because the county provides municipal services in unincorporated areas, state law allows it to receive more funds when the unincorporated population rises relative to that of the incorporated cities.

In fiscal 2003, approximately two-thirds of the total county population lived in the unincorporated areas of the county. Historical population growth trends show that growth in the unincorporated areas has outpaced that of the three incorporated municipalities. Tampa, Temple Terrace, and Plant City have the potential to annex, which would reduce the population of the county's unincorporated areas; however, none of the three cities currently has annexation plans, and the possibilities are limited.

Revenue Sufficiency: While total CIT revenues increased by an average of 2.8% annually in fiscal years 1999–2003, the county's share of the receipts rose an average of 6.1% annually due to faster population growth in the unincorporated areas of the county. Of sales tax distributions between the county and cities, the county's share of receipts increased to 71.6% in fiscal 2003 from 70.7% in fiscal 1999.

The county's portion of fiscal 2003 CIT revenue covers MADS on the series 2004 bonds and all parity debt, including the court facilities revenue bonds, a sound 2.7x. Although the county currently uses the majority of CIT revenue for pay-as-you-go capital spending, additional parity debt issuance planned through fiscal 2008 will reduce coverage to approximately 1.75x MADS.

Additional Bonds Test: Prior to the issuance of additional bonds, CIT revenue in any consecutive 12-month period in the preceding 24 months must equal or exceed 135% of MADS on outstanding and proposed additional bonds.

Reserve Account: The reserve account requirement for the series 2004 bonds is the lesser of MADS, 125% average annual debt service (AADS), or 10% of the original principal amount of the bonds.

■ Debt

Hillsborough County's direct debt level is low, at only \$654 per capita and 1.52% of market value. Overall debt levels, including debt from the school district and the city of Tampa, are higher at \$2,145 per capita and 4.98% of market value. The debt amortization schedule is slightly above average, with 29% and 57% of principal retired within five and 10 years, respectively. After this issue, less than 15% of the county's debt will be supported with property taxes; the majority is supported by non-ad valorem revenues, including special assessment, fuel tax, and sales tax revenues.

Debt Statement

(\$000)

This Issue	90,000
Refunding Portion of this Issue	(67,500)
Non-Ad Valorem Revenue Bonds	85,875
Other Debt	<u>594,064</u>
Total Direct Debt	702,439
Overlapping Debt	<u>1,599,787</u>
Total Overall Debt	2,302,226

Debt Ratios

Direct Debt Per Capita(\$)*	654
As % of Market Value**	1.52
Overall Debt Per Capita(\$)*	2,145
As % of Market Value**	4.98

*Population: 1,073,407 (2003). **Market value: \$46,204,981,000 (2003).

The county's contingent liabilities for other governmental units historically have been noted as a risk. In 1997, the county agreed to participate with the Tampa Sports Authority (TSA) in financing the construction of Raymond James Stadium. In connection with this agreement, the TSA issued \$149 million of CIT revenue bonds, \$30 million of Florida sales tax bonds, and \$11 million of tourist development tax revenue bonds. The county agreed to pay two-thirds of any operations and maintenance cash shortfall in the TSA's annual budget for as long as the project bonds are outstanding.

In fiscal years 2001–2004, the county was required to pay two-thirds of the TSA's property tax bill. The payment of property taxes by the TSA over the past three fiscal years was required because certain property owned by the TSA was deemed to have private use and added to the tax rolls. Approximately 45% of the tax payments the county made for the TSA in fiscal years 2001–2004 were paid back to the county as property tax revenue. In fiscal years 2003 and 2004, the net property tax payment made by the county amounted to \$1.7 million each fiscal year. In addition, the county was required to cover two-thirds of an operating shortfall in the TSA's budget in fiscal 2004, totaling \$528,000.

In December 2003, the county assumed ownership of Raymond James Stadium, thereby removing the property from the tax rolls and saving the county \$1.7 million per year in net property tax payments. The county will continue to be required to fund two-thirds of any operating shortfall in the TSA's budget. This risk is mitigated by the fact that county must approve the TSA's annual budget.

The county also entered into an agreement with the Tampa Port Authority (TPA) in 1995 to provide a backup pledge for \$80 million of revenue bond

issuance. The county was never required to make any payments under this agreement. The TPA entered into a forward swap agreement to refund the debt issued in 1995 after June 1, 2005. At the time that the TPA entered into this agreement, the county's backup pledge on the debt was removed.

The county's fiscal years 2005–2009 CIP, which totals \$839.9 million, is focused mainly on water and wastewater improvements (28% of total projects), transportation infrastructure (20%), and solid waste improvements (14%). A substantial 71% will be funded by pay-as-you-go sources, including CIT revenues, enterprise fees, and ad valorem tax revenues. County policy is to use at least 1% of the countywide and unincorporated area revenues for pay-as-you-go capital funding. The remaining 29% will be debt financed with general government and self-supporting enterprise fund revenue bonds.

■ Finances

The county's financial position is sound due to conservative budgeting practices and consistently strong financial management. At the end of fiscal 2003, the general fund unreserved fund balance totaled \$98.4 million, or 14.8% of expenditures and transfers out, well in excess of the amount required by county policy, which requires the maintenance of total general fund reserves of at least 5% of expenditures. After three consecutive fiscal years of sizable surpluses, general fund reserves decreased by \$7.8 million in fiscal 2003 due to the county's policy of transferring reserves in excess of the next fiscal year's budgeted beginning fund balance to the self-insurance and fleet management funds.

Growth in taxable market value has averaged a strong 7.7% annually over the past five fiscal years. This has enabled the county to lower the countywide operating millage rate for eight consecutive fiscal years, from 7.905 mills in fiscal 1995 to 7.1877 mills in fiscal 2004, increasing flexibility under the 10-mill statutory cap. The unincorporated area's operating millage has remained constant, at 5.062 mills over the same period, despite the rising cost of providing public safety services.

Management and planning are sound. The county prepares a biennial budget, with fiscal 2005 being the second year of the current budget cycle. The county also prepares a five-year pro forma budget for the general fund. The adopted fiscal 2004 operating budget for the general fund totals \$296.9 million,

General Fund Only

(\$000, Audited Fiscal Years Ended Sept. 30)

	1999	2000	2001	2002	2003
Taxes	333,541	354,495	390,054	442,095	462,452
Licenses and Permits	2,430	2,840	3,020	3,709	3,834
Intergovernmental	4,211	4,773	4,900	4,029	4,205
Charges for Services	25,358	42,399	42,459	55,482	54,479
Other	<u>31,543</u>	<u>20,443</u>	<u>21,584</u>	<u>14,025</u>	<u>9,816</u>
Total Revenues	397,083	424,950	462,017	519,340	534,786
General Government	48,941	54,318	59,547	61,990	73,404
Public Safety	49,162	53,278	57,872	61,617	69,166
Human Services	24,060	25,633	28,899	37,257	42,221
Culture and Recreation	23,907	26,517	33,958	35,873	41,750
Debt Service	—	—	—	—	—
Other	<u>33,912</u>	<u>30,843</u>	<u>33,629</u>	<u>48,758</u>	<u>42,836</u>
Total Expenditures	179,982	190,589	213,905	245,425	269,377
Net Change	217,101	234,361	248,112	273,915	265,409
Transfers In	92,536	89,027	84,773	108,204	120,412
Transfers Out	(313,216)	(303,869)	(324,556)	(356,845)	(393,666)
Other Uses	—	—	—	—	—
Net Surplus/(Deficit)	(3,579)	19,519	8,329	20,025	(7,845)
Total Fund Balance	66,868	86,339	94,174	114,320	106,415
As % of Expenditures and Transfers Out	13.6	17.5	17.5	18.8	16.0
Unreserved Fund Balance	65,492	85,011	83,707	106,414	98,445
As % of Expenditures and Transfers Out	13.3	17.2	15.7	17.5	14.8
Unreserved/Undesignated Fund Balance	52,710	69,908	74,404	90,594	83,438
As % of Expenditures and Transfers Out	10.7	13.9	13.8	14.9	12.6

which represents a 9.8% increase from the fiscal 2003 budget. With the 0.0149-mill reduction in operating millage, the county projects property tax income to rise 8.9% compared with the fiscal 2003 budget. Economically sensitive revenue streams, including the local option gas, sales, and tourism taxes, are budgeted to collectively grow 3.5% from the fiscal 2003 budget. Midway through fiscal 2004, general fund revenues were collectively above

budget, while expenditures were close to budget.

The county has assessed the estimated impact of the state's implementation of legislation known as Article V, which transfers clerk of courts and judicial operations to the state. The shift will occur on July 1, 2004, three-quarters through fiscal 2004. The county currently estimates that, for fiscal 2005, the first full year of implementation, it will lose approximately \$18.3 million in court fees as well as sales tax and state-shared revenue. The state will assume approximately \$33.3 million in costs currently paid by the county, and the county will pick up \$7.3 million in new costs, for a net gain of approximately \$7.7 million.

Pledged Sales Tax Revenue: Distributions to Hillsborough County*

(Fiscal Years Ending Sept. 30)

Fiscal Year	Revenues Received (\$000)	Change (%)	MADS (x)
1998	27,027	—	1.91
1999	28,048	3.8	1.99
2000	30,818	9.9	2.18
2001	36,135	17.3	2.56
2002	35,883	(0.7)	2.54
2003	37,736	5.2	2.67
2004**	38,868	3.0	2.75

*On all outstanding parity bonds, including court facilities revenue bonds. **Projected annual revenues for fiscal year.
MADS – Maximum annual debt service.

■ Economy

Hillsborough County is the fourth largest county in Florida, located approximately halfway down the west coast of the state on Tampa Bay. The City of Tampa is the county seat and serves as the Florida Gulf Coast's economic center. The only other incorporated municipalities in the county are the cities of Temple Terrace and Plant City. Population in the county increased approximately 20% during the 1990s, and the 2003 population of approximately 1.1 million represents a strong 7.5% increase since

the 2000 census, compared with statewide growth of 6.5%. Hillsborough County's expansion has occurred mostly outside the City of Tampa.

The county's economy is diversified, with the services and trade sectors accounting for the largest components of the employment base. Tampa is home to numerous regional headquarters and multinational finance and insurance companies. In addition, tourism is an important industry in the county. Busch Gardens, a nationally recognized theme park, is located in the county. Unemployment rates are lower than state and national levels. The 2003 rate was 4.1% compared with 5.1% and 6.0% for the state and nation, respectively.

Top employers in the county in 2003 included Hillsborough County School Board (with 28,243 employees), Verizon (13,254), the University of South Florida (11,950), Hillsborough County (9,774), Tampa International Airport (7,764), MacDill Air Force Base (5,645), St. Joseph's Hospital (5,289), City of Tampa (4,600), Publix Food Centers (4,245), the U.S. Postal Service (3,834), and Bank of America (3,200).

Hillsborough County's wealth levels are on par with state and national levels. Per capita personal income was \$29,602 in 2002, 100% of state and 96% of national averages. County retail sales are driven by activity in the City of Tampa, which has resulted in above-average per capita retail sales numbers, at 130% of state and national levels in 2002.

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